

SUMMARY OF THE ANNUAL BUDGET REPORT FOR 2019/20 & 2021/22 FINANCIAL YEARS

1 In terms of Section 152(1) of the Constitution of the Republic of South Africa, Act 108 of 1996, outlines the objects of the local Government. The objects of the local government are:-

- (a) to provide democratic and accountable government for local communities to ensure the provision of services to communities in a sustainable manner;
- (b) to ensure the provision of services to communities in a sustainable manner
- (c) to promote social and economic development;
- (d) to promote a safe and healthy environment; and
- (e) to encourage the involvement of communities and community organizations in the matter of local government.

1.2 Section 153 of the Constitution of the Republic of South Africa provides that a municipality must;-

- (a) Structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community; and
- (b) Participate in national and provincial development programmes.

1.3 In terms of section 17(1) of the MFMA, act 56 of 2003 provide that:

an annual budget of a municipality must be a scheduled in the prescribed format -

- (a) setting out realistically anticipated revenue for the budget year from each revenue source;
- (b) appropriating expenditure for the budget year under the different votes of the municipality.
- (c) Setting out indicative revenue per revenue source and projected expenditure by vote (function) for the two financial years following the budget year
- (d) Setting out-
 - (i) estimated revenue and expenditure by vote (function) for the current year; and
 - (ii) actual revenue and expenditure by vote for the financial year preceding the current year; and
- (e) a statement containing any other information required by section 215 (3) of the constitution or as may be prescribed.

- (2) an annual budget must generally be divided into a capital and an operational budget in accordance with international best practice, as may be prescribed

1.4 In terms of Section 24 (1) of the MFMA the council of a municipality must at least 30 days before the start of the budget year consider approval of the annual budget.

(2) An annual Budget-

- (a) Must be approved before the start of the budget year;
- (b) Is approved by the adoption by the council of a resolution referred to in section 17(3) (a)(i); and
- (c) Must be approved together with the adoption of resolution as may be necessary –
 - (i) Imposing any municipal tax for the budget year;
 - (ii) Setting any municipal tariffs for the budget year
 - (iii) Approving measurable performance objectives for revenue from each source and for each vote in the budget
 - (iv) Approving any changes to the municipality's integrated Development plan; and
 - (v) Approving any changes to the municipality's budget related policies

The National Treasury issue circular No 93 and 94 which give guideline of how the 2019/20 – 2021/22 budget should be prepared.

➤ According circular number 93 the CPI and Real GDP is as follows:

Fiscal Year	2018/2019	2019/2020	2020/2021	2021/2022
CPI Inflation	4.7%%	5.2%	5.4%	5.4%%
Real GDP Growth	0.7%	1.5%	1.7%	2.1%

According to circular 93 issued by the National Treasury directed the municipalities that 2019/20 Medium – Term Budget Expenditure Framework (MTREF) **MUST** be compliant with the mSCOA classification framework Version 6.3 of the schedule A1 (the Excel Formats)

The mSCOA compliance in respect of table 2018/20 MTREF and IDP submission must include the data string uploaded to the LG Database portal which must meet the following requirements:-

- No Mapping
- Correct use of all segment
- Seamless integration of core system with sub – system (municipalities must ensure integration of Debtors, Payroll and Asset sub – systems) and
- Integrated budgeting facility directly linked to the IDP and SDBIP facilities on the system.

In relation to the 2019/20 MTREF municipalities must use version 6.3 of the A schedule. Attached hereto as **ANNEXURE ...** is Circular 93 and 94 issued by National Treasury

The Revenue Budget

The tariff must be in excess of the 5.2 per cent projected inflation target, and according to the letter from DWA water tariff will be increased by 7.30 per cent of which the municipality must add a markup from the above mentioned tariff will be 1.00 per cent of which the tariff to be charged by the municipality will be 8.30 percent. The other tariffs charged will be increased by 5.2 per cent as per the projected CPI from circular 93.

Employee related costs

The parties to the council have concluded a multi-year (3 year) salary and Wages Collective Agreement for the period 1 July 2018 to 30 June 2021. The Salary and Wages Collective Agreement dated 15 August 2018 is attached hereto as **ANNEXURE “...”**

In terms of page section 6 Salary and Related Increase of the above mentioned attached Salary and Wages Collective Agreement

6.3 Subject to clause 6.5, in respect of this financial year, all employee covered by this agreement shall receive, with effect from 1 July 2019, an increase based on the projected CIP percentage for 2019, **plus one comma five percent (1.5%)**

Remuneration of Councillors

As municipalities we are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper limits of Salaries, Allowances and Benefits of different member of municipal councils published annually between December and January by the Department of Cooperative Governance.

The municipality has projected an increase of 6.3 percent for part – time councillor and chairpersons of Section 79 committees and 6.3 percent for executive Mayor, Speaker, Chief Whip, MPAC Chairperson and members of the Mayoral Committee (MMCs)

REVENUE/INCOME PER VOTE

Attached hereto as **ANNEXURE “” page to** is the annual budget indicating the revenue projections and expenditure for 2019/20 – 2021/2022 financial years for the various line-items

1 SUMMARY OF OWN REVENUE & GRANTS AND SUBSIDIES

1.1 Table A3A and A4 (Revenue and Expenditure by Function (Municipal Vote))

1.1.1 The actual Revenue Projected for 2019/20 financial year amounts to ***R 916 310 million*** which include the following grants:

1.1.2 In terms of GRAP 24 which is Accrual Basis

Description	Budget 2018/2019	Budget 2019/20	Variance	Increase Percentage
Equitable share	R 364 153 Million	R 404 156 Million	R 40 003 Million	9.90%
Financial Management Grant	R 1 770 Million	R 1 770 Million	R 0	0%
EPWP	R 1 984 Million	R 2 029 Million	R 45 Thousand	2.22%
MIG	R 120 845 Million	R 123 429 Million	R 2 584 Million	2.09%
WSIG8	R 64 000 Million	R 60 000 Million	(R 4 000) Million	(6.67)%
EEDSMG	R 0	R 5 000 Million	R 5 000 Million	100%
TOTAL GRANTS AND SUBSIDIES	R 552 752 Million	R 596 384 Million	R 43 632 Million	6.53%
<i>Own Revenue</i>	<i>R 255 561 Million</i>	<i>R 320 055 Million</i>	<i>(R 64 594) Million</i>	<i>(20.18)%</i>

<i>TOTAL BUDGET</i>	<i>R 808 313 Million</i>	<i>R 916 310 Million</i>	<i>108 226 Million</i>	<i>11.81%</i>
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The executive summary shows the following percentage as per the source of revenue:-

- 44.11% of the total revenue is from Equitable Share Grant
- 0.19% of the total revenue is from FMG
- 0.23% of the total revenue is from EPWP
- 13.53% of the total revenue is from MIG
- 6.60% of the total revenue is from WSIG
- 2.33% of the total revenue is from EEDSMG
- 33.01% of the total revenue is from Own Revenue (Projected revenue to be collected)

1.1.3 In terms of MFMA which is Cash Basis

The actual Revenue Projected for 2019/20 financial year amounts to ***R 656 476 million which*** include the following grants

Description	Budget 2018/2019	Budget 2019/20	Variance	Increase Percentage
Equitable share	R 364 153 Million	R 404 156 Million	R 40 003 Million	9.90%
Financial Management Grant	R 1 770 Million	R 1 770 Million	R 0	0%
EPWP	R 1 984 Million	R 2 029 Million	R 45 Thousand	2.22%
MIG	R 120 845 Million	R 123 429 Million	R 2 584 Million	2.09%
WSIG8	R 64 000 Million	R 60 000 Million	(R 4 000) Million	(6.67)
EEDSMG	R 0	R 5 000 million	R 5 000 million	100%
TOTAL GRANTS AND SUBSIDIES	R 552 752 Million	R 596 384 Million	R 32 886 Million	5.62%
<i>Own Revenue</i>	<i>R 103 691 Million</i>	<i>R 60 092 Million</i>	<i>(R 45 099) million</i>	<i>(76.97)%</i>
<i>TOTAL BUDGET</i>	<i>R 656 443 Million</i>	<i>R 656 476 Million</i>	<i>R 33 Thousand</i>	<i>0%</i>

- 61.71% of the total revenue is from Equitable Share Grant
- 0.27% of the total revenue is from FMG
- 0.31% of the total revenue is from EPWP
- 18.99% of the total revenue is from MIG
- 9.23% of the total revenue is from WSIG
- 0.76% of the total revenue is from EEDSMG
- 8.73% of the total revenue is from Own Revenue (Projected revenue to be collected)

Revenue in – kind allocated to the municipality as per the Division of Revenue Bill of 2018 are as follows:-

Description	Budget 2018/19	Budget 2019/20
INEP Allocated to ESKOM	R 25 272 Million	R 61 383 Million
Water scheme (Loskop)	R 75 000 Million	R 100 000 Million
MSIG	R 0	R 900 Thousand
Total	R 100 272 Million	R 162 283 Million

1.2 *Cash Basis in Terms of the MFMA 56 of 2003*

The budget of the municipality is prepared in terms of Section 18 and 19 of the MFMA 56 of 2003 and also in terms of GRAP 24. In terms of section 18 and 19 of the MFMA 56 of 2003 the budget of the municipality may only be funded from realistically anticipated revenue to be collected from various source of revenue of the municipality.

The Cash basis budgeting for 2019/20 financial year realistically projected revenue amount to **R 656 476 Million** as per the below sources of revenue

<i>Description</i>	<i>Adjustment Budget 2018/2019</i>	<i>Draft Budget 2019/20</i>	<i>Variance</i>	<i>Percentage</i>	<i>Reason(s) for less or more than 5.2% CPI</i>
<i>Property Rates:</i>	<i>R 12 050 Million</i>	<i>R 18 839 Million</i>	<i>R 6 789 Million</i>	<i>36.04%</i>	<i>The reason for the increase of revenue by 36.04 percent under this revenue is that the municipality has appointed Debt collector which will assist to collect revenue from all debtors. Currently the municipality has issued invoices amount to R 47 520 million to the Departments of which there is a positive response from the Department.</i>
<i>Service Charges</i>	<i>R 1 511 Million</i>	<i>R 18 222 Million</i>	<i>R 16 711 Million</i>	<i>91.71%</i>	<i>The reason for the increase of revenue by 91.71 percent under this revenue is that the municipality has appointed Debt collector which will assist to collect revenue from all debtors. Currently the municipality has issued invoices amount to R 76 794 million to the Departments of which there is a positive response from the Departments and also the municipality is targeting the business of which invoices amount to R 44 094 million are issued.</i>

Description	Adjustment Budget 2018/2019	Draft Budget 2019/20	Variance	Percentage	Reason(s) for less or more than 5.2% CPI
<i>Investment (Interest)</i>	<i>R 6 336 Million</i>	<i>R 6 500 Million</i>	<i>R 164 Thousand</i>	<i>2.52%</i>	<i>The municipality is intending to invest all fund received from SARS as VAT refund of which are not committed to the budget until committed to the budget. The projected refunds from SARS are from the Month of January 2019 to 30 June 2019 which are projected to an amount of R 30 million.</i>
<i>Other Revenue</i>	<i>R 89 819 Million</i>	<i>R 15 031 Million</i>	<i>(R 74 788)Million</i>	<i>(497.59)%</i>	<i>The budget of other revenue has decreased by (497.59) percent compared to the adjustment budget because during the adjustment the municipality used reserves to fund the budget and under draft budget the municipality having only R 8.5 million on reserves which used to fund the draft budget.</i>
Total Own Revenue	R 103 691 Million	R 60 092 Million	(R 43 599)Million	(72.55)%	The total projected own revenue for 2019/20 financial year has decreased by (72.55) percent compared to the adjustment budget is as per the above mentioned explanations

Description	Adjustment Budget 2018/2019	Draft Budget 2019/20	Variance	Percentage	Reason(s) for less or more than 5.2%
<i>Grants and Subsidies</i>	R 552 752 Million	R 596 384 Million	R 32 886 Million	5.62%	<i>The Allocation of the Municipality as per the Division of Revenue Bill of 2019 are increased as follows%</i> <i>Equitable Share Grant 9.90% Increase</i> <i>EPWP 2.2% Increase</i> <i>MIG 2.09% Increase</i> <i>WSIG (6.67)% decreased</i> <i>FMG 0% increase</i>

SUMMARY OF OPERATIONAL EXPENDITURE WHICH IS DIVIDED AS FOLLOWS:-

Accrual Basis

The operational expenditure committed to the projected revenue for 2019/20 amounts to R **742 309 million** *including non – cash back items amount to R 243 719 million*. The capital expenditure amounts to **R 167 646 million**. The total expenditure of Opex and Capital amounts to **R 909 955** *against the adjustment budget of R 1 109 872 billion, which decreased by an amount of (R 199 729) million which is (-21.95) percent.*

Description	Budget 2018/19	Budget 2019/20	Variance	Percentage
Staff benefits	R 140 117 Million	R 156 765 Million	R 16 648 Million	10.62%
Councillors allowances	R 26 242 Million	R 27 554 Million	R 1 342 Million	4.9%
Depreciation & Asset Impairment	R 180 345 Million	R 84 896 Million	(R 95 449) Million	(112.43)%
Material and Bulk Purchases	R 142 281 Million	R 147 070 Million	R 6 589 Million	4.43%
Transfers and grants	R 88 729 Million	R 250 thousand	(R 88 479) Million	(35391.60)%
Other Operational Expenditure	R 369 153Million	R 325 962 Million	(R 43 291) Million	(13.29)%
Total – Operational Budget	R 946 867 Million	R 742 497 Million	(204 470) Million	(27.54)%
Capital Expenditure – MIG/ WSIG	R 159 338 Million	R 157 387 Million	(R 1 951) Million	(1.24)%
Capital Expenditure – EEDSMG	R 0	R 5 000 million	R 4 900	100%

Construction of Storm Water	R 600 Thousand	R 0	R 0	0%
Computer Equipment	R 880 Thousand	R 880 Thousand	R 0	0%
Procure of Serves	R 550 Thousand	R 550	R 3 550	100%
Acquisitions Biometrix System	R 600 Thousand	R 0	R0	0%
Acquisitions Acquisition of Vehicles (Municipal Fleet)	R 807 Thousand	R 0	R 0	0%
Acquisitions Furniture	R 730 Thousand	R 730 Thousand	R0	0%
ICT System Upgrade	R 0	R 3 550 million	R 3 550 million	100%
Total Capital Budget	R 163 005 Million	R 167 747 Million	R 4 342 Million	(2.71)%
Total Budget for 2018/2019	R 1 109 872 Million	R 909 944 Million	(R 199 928)	(21.97)%

The executive summary shows the following percentage as per category of expenditure as per the Accrual Basis Budgeting

- 3.05% of the total operational budget is for councillors allowances
- 17.32% of the total operational budget is for employee cost
- 16.26% of the total operational budget is for Material and Bulk Purchases
- 33.38% of the total operational budget is for other operational expenditure

- 10.28% of the total operational budget is for Transfers and Grants
- 11.71% of the total operational budget is for Depreciation & Asset Impairment
- 17.21% of the budget is for capital expenditure

Cash Basis

The operational expenditure committed to the projected revenue for 2019/20 amounts to R **488 930 million** excluding non – cash back items amount to **R 243 719 million**. The capital expenditure amounts to **R 167 746 million**. The total expenditure of Opex and Capital amounts to **R 656 676 million** against the adjustment budget of **R 659 866 million**, which increase by an amount of **R 3 190 million** which is 0.49 percent.

Description	Budget 2018/19	Budget 2019/20	Variance	Percentage
Staff benefits	R 140 117 Million	R 156 765 Million	R 14 738 Million	10.00%
Councillors allowances	R 26 242 Million	R 27 554 Million	R 1 342 Million	4.9%
Material and Bulk Purchases	R 142 281 Million	R 147 070 Million	R 6 589 Million	4.43%
Other Operational Expenditure	R 178 221 Million	R 157 541 Million	(R 11 121) Million	(6.66)%
Total – Operational Budget	R 486 861 Million	R 488 930 Million	R 11 628 Million	2.33%

Description	Budget 2018/19	Budget 2019/20	Variance	Percentage
Capital Expenditure – MIG/ WSIG	R 159 338 Million	R 157 387 Million	(R 1 951) Million	(1.24)%
Capital Expenditure – EEDSMG	R 0	R 5 000 million	R 5 000	100%
Construction of Storm Water	R 600 Thousand	R 200 Thousand	R 0	0%
Computer Equipment	R 880 Thousand	R 880 Thousand	R 0	0%
Replacement of Serve	R 550 Thousand	R 0	R 0	0%
Upgrading of Network	R 0	R 3 550	R 3 550	100%
Acquisitions Biometrix System	R 600 Thousand	R 0	R0	0%
Acquisitions Acquisition of Vehicles (Municipal Fleet)	R 807 Thousand	R 0	R 0	0%

Total Capital Budget	R 163 005 Million	R 167 746 Million	(R 13 908) Million	(9.33)%
Total Budget	R 659 866 Million	R 656 576 Million	R 6 169 Million	0.93%

The executive summary shows the following percentage as per category of expenditure as per the Cash Basis Budgeting

- 5.57% of the total operational budget is for councillors allowances
- 31.28% of the total operational budget is for employee cost
- 29.07% of the total operational budget is for Material and Bulk Purchases
- 34.08% of the total operational budget is for other operational expenditure
- 23.79% of the total budget is for the capital expenditure

The total budget for operational and capital expenditure including conditional grants such FMG, WSIG, EPWP and MIG amount to **R 946 867** which will be adjusted to an amount of **R 742 397 million** which is (27.06%) percent decrease, and the capital budget amount to **R 163 005** which will be adjusted to an amount of **R 167 946** which is 2.94 percent decreased. Attached here to as **ANNEXURE** Is the detailed annual budget for 2019/20 – 2021/22 financial year?

Function	Budget for 2018/19	Budget for 2019/20	Variance	Percentage	Reason for Variance less or more than 5.2%
Mayor and Council (100)	R 36 571 Million	R 37 883 Million	R 1 312 Million	3.46%	On the draft budget only councillors allowances are increased by 5 percent and other expenditure under this function are increased by zero percent and some of line items are decreased because of cash flow challenges due to the poor payments by consumers.
Municipal Manager, PMU & Youth, Internal Audit and Risk Management	R 29 646 Million	R 30 848 Million	R 1 202 Million	3.90 %	On the draft budget only salaries and wages are increased by 6.8 percent and other expenditure under this function are increased by zero percent and some of line items are decreased because of cash flow challenges due to the poor payments by consumers.
Local Economic Development	R 6 891 Million	R 7 116 Million	R 225 Million	3.16 %	On the draft budget only salaries and wages are increased by 6.8 percent and other expenditure under this function are increased by zero percent and some of line items are decreased because of cash flow challenges due to the poor payments by consumers.
BTO, Asset Management and Supply Chain	R 397 813 Million	R 199 547 Million	(R 198 266) Million	(99.36%	The budget under BTO only salaries and wages are increased by 6.8 percent and other expenditure under this function are increased by zero percent and some of line items are decreased because of cash flow challenges due to the poor payments by consumers.

Function	Budget for 2018/19	Budget for 2019/20	Variance	Percentage	Reason for Variance less or more than 5.2%
Technical Services	R 3 153 Million	R 3 298 Million	R 145 Thousand	4.40 %	The budget under Technical Services only salaries and wages are increased by 6.8 percent and other expenditure under this function are increased by zero percent and some of line items are decreased because of cash flow challenges due to the poor payments by consumers.
PMU	R 6 042 Million	R 6 042 Million	R 0	0%	The budget under PMU only salaries and wages are increased by 6.8 percent and other expenditure under this function are increased by zero percent and only 4.90 percent is taken from MIG allocation amount to R 129 429 as per approved Business Plan approved by CoGTA.
Solid Waste Removal	R 10 484	R 10 685	R 201	1.88%	The budget under Solid Waste Removal only salaries and wages are increased by 6.8 percent and other expenditure under this function are increased by zero percent and some of line items are decreased because of cash flow challenges due to the poor payments by consumers.
Electricity	R 14 070	R 19 638	R 5 568	28.35%	The budget Electricity Services salaries and wages are increased by 6.8 percent Centricity for street lights and offices are also increase by 5.2 percent and there is also additional grant called EEDSMG amount to R 5 000 million and other expenditure and this resulted to an increase of 28.35 percent.
Water, Roads & Maintenance and Sanitation Services	R 302 751 Million	R 293 623 Million	(9 128) Million	(3.11) %	The budget under Water Distribution only salaries and wages are increased by 6.8 percent and other expenditure under this function are increased by zero percent and some of line items are decreased because of cash flow challenges due to the poor payments by consumers. Water Distribution consist of the following sub – function: Electricity Services, Roads and Maintenance and Sanitation Services

Corporate Services(HRM), Fleet Management, ICT and Legal Services	R 73 140 Million	R 64 764 Million	(R 9 376) Million	(14.48) %	The budget under Corporate Services only salaries and wages are increased by 6.8 percent and other expenditure under this function are increased by zero percent and some of line items are decreased because of cash flow challenges due to the poor payments by consumers. Corporate Services consist of the following sub – function: ICT, Fleet Management and Legal Services
Community Services	R 5 674 Million	R 6 162 Million	(R 488) Thousand	(7.92)%	The budget under Community Services only salaries and wages are increased by 7.92 percent and other expenditure under this function are increased by zero percent and some of line items are decreased because of cash flow challenges due to the poor payments by consumers.
Roads and Traffic	R 46 421 Million	R 48 106 Million	R 1 685 Million	3.50%	The budget under Roads and Traffic only salaries and wages are increased by 6.8 percent and other expenditure under this function are increased by zero percent and some of line items are decreased because of cash flow challenges due to the poor payments by consumers.
Community Halls and Facilities, Libraries & Archives and Sport Grounds & Stadium	R 14 206 Million	R 14 682 Million	R 476 Thousand	3.24%	The budget under Community Halls and Facilities, Libraries & Archives and Sports Ground and Stadium only salaries and wages are increased by 6.8 percent and other expenditure under this function are increased by zero percent and some of line items are decreased because of cash flow challenges due to the poor payments by consumers.

Total Budget	R 946 867 Million	R 742 397 Million	(R 204 470) Million	(27.54)%	The draft budget is decreased by (27.54) because all non – cash back item make the budget to have a deficit of which NT advised that all approved budget must be funded but this action will result to the unauthorized expenditure because actual incurred will be more than the budgeted amount.

RECOMMENDATIONS OF THE MUNICIPAL MANAGER

1. **THAT** the annual budget of the municipality for the financial year 2019/20; and indicative for the two projected outer years 2020/21 and 2021/22 as outline in **Annexure “”** be approved:
2. **THAT** the Tariff structure for 2019/20 financial year as attached in **Annexure “” pages to** be approved.
3. **THAT** following policies relating to budget as attached in **Annexure “”** be approved:
 - Tariff Policy
 - Investment Policy
 - Cash Management Policy
 - Credit Control and Collection Policy
 - Property Rates Policy
 - Revenue Enhancement Strategy and Debt Collection Plan
 - Indigent Subsidy and Free Basic Services Provision Policy
 - Budget Policy
 - Virement Policy
 - Supply Chain Management Policy
 - Asset Management Policy
 - Travelling and Subsistence allowance Policy
 - Unauthorised irregular or fruitless and wasteful Expenditure Policy and Procedures
 - Petty Cash Policy
4. **THAT** the Accounting Officer be authorized to submit the approved annual budget to the National Treasury and the relevant provincial treasury.
5. **THAT** circular No: 93 and 94 issued by National Treasury as a guideline for the preparation of annual budget for 2019/20– 2021/22 be noted

